



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

November 5, 2001

OFFICE OF TREASURY  
INSPECTOR GENERAL  
RECEIVED  
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FOR TAX ADMINISTRATION

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX  
ADMINISTRATION

FROM:

*John M. Dalrymple*  
John M. Dalrymple  
Commissioner, Wage and Investment Division

SUBJECT:

*Draft Audit Report*  
Draft Audit Report – "The Internal Revenue Service Successfully  
Processed Individual Tax Returns During the 2001 Filing  
Season" (Audit # 200140010)

The delivery of a successful Filing Season is the culmination of an extensive year round planning process. It is a reflection of the executive leadership, effective managerial involvement and employee dedication. Your report accurately reflects the many challenges we overcame to ensure this year's success. We have processed more than 127.6 million individual returns and issued \$158 billion in refunds. We recognize the critical impact processing returns has on our taxpaying public, the Internal Revenue Service, and our public and private sector stakeholders. We will use your recommendations to further improve our operation. I agree with the measurable benefits stated in your report.

Our comments on your recommendations follow:

**RECOMMENDATION 1**

The Director, Customer Account Services, Wage and Investment Division, should work with other appropriate IRS officials to ensure that detailed, comprehensive plans are developed when implementing significant tax law changes and initiatives. These plans should include a process to ensure that action items are timely completed prior to the beginning of the filing season.

**ASSESSMENT OF CAUSE**

The report notes our significant progress in the implementation of tax law and related initiatives, but recommends improvements in the areas of consistency in processing procedures, taxpayer instruction, and legislative requirements, as well as in clarity of taxpayer notices.

**CORRECTIVE ACTION**

The data you based your recommendation on comes from the implementation of laws passed before 2000. Since then the IRS has revised its methods of implementing tax law changes. We believe these changes result in the successful processing of returns impacted by significant tax law changes and related initiatives. In fact we believe our methods improve on the recommendations.

Since 2000, the Office of Tax Administration Coordination (OTAC) -- which reports directly to the Commissioner -- has managed the implementation of tax law changes in the IRS. All elements of the Wage & Investment Division, including Customer Account Services, work closely with OTAC to develop detailed legislative implementation plans. This includes coordinating with other appropriate IRS officials to ensure we develop comprehensive action plans addressing all implementation issues. This also includes early identification of any issue or initiative that may impact the filing season, and the timely development of implementation actions to ensure a successful filing season.

W&I participation on the Filing Season Readiness Executive Steering Committee, which conducts service-wide coordination of initiatives, planning actions and resolution of issues (including legislative) that may affect the upcoming filing season, has enhanced this process. A review of Wage and Investment's implementation of the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16) will show that, overall, our efforts are on-target, on time, and will result in continued successful filing seasons.

**IMPLEMENTATION DATE:**

Completed

**RECOMMENDATION 2**

The Director, Submission Processing, Wage and Investment Division, should use timely analysis of taxpayer filing patterns as a tool to assist the IRS, in determining what additional actions should be taken as the current filing season progresses, to ensure tax returns are filed in the correct locations and to assist in planning for the following filing season.

**ASSESSMENT OF CAUSE**

We made significant changes to where we required taxpayers to file their returns, but did not perform any detailed analysis of taxpayer compliance with these changes. We will change the individual return filing locations in 15 states affecting an estimated 15.5 million taxpayers in the 2002 Filing Season. We will take steps early in the next filing season to analyze whether taxpayers and paid preparers are filing in the correct locations.

**CORRECTIVE ACTION**

We submitted a Request for Information Technology Services (RIS) in February 2001, for a monthly accumulative report, detailing tax returns filed outside the taxpayer's

assigned Service Center. We received the first report in September 2001, for tax returns processed and posted to Master File on August 25, 2001. We will use the reports to track the filing patterns throughout the filing season, to ensure we quickly resolve any problems that can impact the filing season. We are analyzing the initial reports to determine if we need any pre-filing season changes to the filing projections.

#### **IMPLEMENTATION DATE**

October 31, 2001

#### **RESPONSIBLE OFFICIALS**

Chief, Program Management and Process Assurance Branch  
 Director, Submission Processing  
 Director, Customer Account Services  
 Commissioner, Wage and Investment Division

#### **RECOMMENDATION 3**

The Director, Submission Processing, Wage and Investment Division, should enhance contingency planning tools to ensure timely reaction to unanticipated changes that occur during the processing season.

#### **ASSESSMENT OF CAUSE**

The report states that the IRS was able to successfully process individual income tax returns while reacting to unexpected taxpayer filing patterns. The report concludes that "The IRS' workload schedules and contingency planning tools could be strengthened to help it better manage unexpected events during the filing season." TIGTA also notes that we do not modify our planning tools after we complete the work schedules and planning for the filing season. The IRS relies on other tools to evaluate and address changing conditions such as unexpected taxpayer filing patterns. These tools include local and national weekly meetings that identify operational issues for analysis and management decisions.

#### **CORRECTIVE ACTION**

The January – June Work Schedule Guidelines will emphasize that we will base the returns to be processed on the historical, weekly filing pattern of Fiscal Year 2001, and adjust it for any updated return projections, new legislation, or systemic/procedural changes that have an impact. Work schedules are managers' tools:

- Identify hiring needs
- Develop accession and release schedules
- Project training needs

We cannot change this planning tool after we have begun our planning period. We will continue actively managing our resources and workload based on monitoring current

information available during the filing season. We have successfully used our information and frequent communication with key managers to accomplish our processing workload.

We have enhanced the filing season readiness package for the W&I sites to include detailed coordination, and steps to ensure we are adequately prepared to move returns among sites to balance workload. If necessary, we are prepared to transship returns. In addition, we are conducting a "live" transshipment test with Small Business/Self-Employed Division (SB/SE), where we ship a sample of business returns received at the Austin W&I processing site to the Ogden SB/SE processing site. This test is helping us identify issues and potential problems, before we make a final decision to initiate a full-scale daily transshipment of business returns received at W&I sites. We will complete the test by October 31, 2001.

**IMPLEMENTATION DATE:**

October 31, 2001

**RESPONSIBLE OFFICIALS**

Chief, Program Management and Process Assurance Branch  
Director, Submission Processing  
Director, Customer Account Services  
Commissioner, Wage and Investment Division

If you have any questions, please call me or Ron Watson, Director, Customer Account Services, at (404) 338-8910.